

Initial Statement of Reasons Overview/Non-Controlling Summary

Proposed Amendments to Regulation 1506, *Miscellaneous Service Enterprises*, and Regulation 1524, *Manufacturers of Personal Property*

Regulation 1506 and 1524 are proposed to be amended to clarify how tax applies to charges made by cleaners for their cleaning and dyeing services and when such persons are required to hold a seller's permit. The proposed amendments clarify how tax applies to a cleaner's alteration charges when the cleaner meets the threshold requirements of Revenue and Taxation Code section 6018.6. Cleaners that do not meet the threshold requirements would rely on Regulation 1524 for guidance regarding their alteration charges. The proposed amendments to Regulation 1524 also clarify how tax applies to charges for the alteration of new and used items in general.

Specific Purpose

The purpose of the proposed regulation amendments is to interpret, implement, and make specific Revenue and Taxation Code section 6018.6. These proposed amendments are necessary to provide guidance to taxpayers affected by this statute.

Factual Basis

Regulation 1506 and 1524 are proposed to be amended to clarify how tax applies to charges made by cleaners for their cleaning and dyeing services and when such persons are required to hold a seller's permit. The proposed amendments also clarify how tax applies to a cleaner's alteration charges when the cleaner meets the threshold requirements of Revenue and Taxation Code section 6018.6. Cleaners that do not meet the threshold requirements would rely on Regulation 1524 for guidance regarding their alteration charges. The proposed amendments to Regulation 1524 also clarify how tax applies to charges for the alteration of new and used items in general.

Proposed Regulation 1506 – The Board recommends that a new subdivision (c) be added to Regulation 1506 and the current subdivision (c) be renumbered as subdivision (d). Proposed subdivisions (c)(1) and (c)(2) clarify how tax applies to a cleaner's charges for its cleaning and rental services, and proposed subdivision (c)(3) clarifies how tax applies to charges for dyeing garments. Staff also recommends that subdivision (b)(2) in Regulation 1524 (current version), which restates the requirements of RTC section 6018.6, be removed from the regulation and incorporated into proposed, renumbered subdivision (c)(4)(A) of Regulation 1506. A new paragraph (B) would also be added to subdivision (c)(4) to clarify how tax applies to the charges by a third party who alters the garments on behalf of the cleaner. Proposed subdivision (c)(5) would be added to Regulation 1506 to clarify how tax applies to a cleaner's sales of miscellaneous items and the need for the cleaner to hold a seller's permit when making such sales.

Proposed Regulation 1524 – The Board recommends that the provisions regarding the application of tax to alterations to "new" garments in the current version of Regulation 1524,

subdivision (b)(1) be rewritten and expanded to clarify how tax applies to charges for altering “new” items in general, including garment alterations by cleaners who do not meet the threshold requirements of RTC section 6018.6. Proposed subdivision (b)(1)(B) clarifies how tax applies to the charges for altering “used” items and explains under what circumstances the person providing the alteration service would be a retailer of the supplies and materials furnished in connection with the alteration of the “used” item.

Pursuant to Government Code section 11346.5(a)(8), the Board of Equalization finds that the adoption of the proposed regulation will not have a significant adverse economic impact on private businesses or persons. The regulation is proposed to interpret, implement, and make specific the authorizing statutes. These changes will clarify the interpretation or administration of the sales and use tax laws. Therefore, the Board has determined that these changes will not have a significant adverse economic impact on private businesses or persons.